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NOTES FOR AN ADDRESS

by

THE HONOURABLE DONALD S. MACDONALD

MINISTER OF ENERGY, MINES AND RESOURCES

to the

LABRADOR WEST CHAMBER OF COMMERCE

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Mr. Chairman,

Here in Labrador City, you may sometimes feel that your interests and your problems are a long way off from Ottawa and that you are in important respects left out of the debate on policies which affect all Canadians.

As the new Minister of Energy, Mines and Resources, I think it is particularly appropriate to address you on an occasion which is so clearly of significance to every Canadian. The Canadian government has a long and continuing interest in the fostering of iron ore and other development in Labrador which in no small way hastened the day when we could all witness the opening of the huge power development at Churchill Falls.

And so, I want to spend the next few minutes with you in a discussion of the significance of this event in terms of the wider interest which the Government of Canada has always shown for the iron industry and the development of your region within the context of the debate about resource development of concern to all Canadians.

CHURCHILL FALLS AND THE FUTURE OF POWER COSTS

The Churchill Falls Power Development will develop a capacity of 34.5 billion kilowatt hours per annum to deliver power at an estimated cost of 3.55 to 2.63 mils per kwhr between 1976 and the year 2016 with the rate expected to drop to 2.07 between the years 2016 and 2041. The rates exclude small additional charges for transmission to Montreal and other markets of Hydro Quebec from the Labrador border.

Total cost of the project to completion in 1976 will approach \$946,000,000 which has all sorts of capital spinoff benefits for Labrador. The project employed a peak work force of 6,000 at the site in 1970 with a total of 52,000,000 man hours put in at the site since the mammoth development

started with preliminary investigation of the site in 1954 and the construction which began in 1966.

This is the kind of commitment of huge capital outlays for the development of these massive resource and energy developments which will be a major concern of Canadians and their governments in the 1970's. The future of whole regions, and indeed the character of the country at large, will in no small measure be determined by the kinds of uses for which this power is developed.

Perhaps as important as the developments themselves, will be the methods by which decisions are reached with respect to future energy and resource developments whether in Labrador and Quebec, in the frontiers of the arctic and the offshore, or in the more familiar areas which must be tapped to meet the increasing demands for energy at home and abroad.

IRON ORE AND THE CHURCHILL FALLS DEVELOPMENT

I said earlier that the iron ore industry played no small part in the early development of Churchill Falls. At this point, I want to give you a quick overview of the iron industry in Canada's current and future development. This will emphasize the continuing interest of the Government of Canada in your problems and those of industries which you might rightly call the economic life-blood of your region.

The iron ore region of Quebec-Labrador is a very important sector of Canada's economy. How important, can be judged by its role in maintaining Canada's position last year as the world's second largest exporter of iron ore, as well as the world's fourth largest producer.

Your area contributed some 80 per cent of Canada's total exports and a large portion of domestic shipments. The Labrador-Quebec industry exports were valued at \$350 million in 1971 while domestic shipments to

iron and steel customers totalled some \$50 million.

This is a far cry from the situation existing 28 years ago when there was no Labrador-Quebec iron ore industry and Canada's exports, all from Ontario were only a tenth of what they are today and 70% of our iron ore needs were imported into Canada; as a matter of fact the modern era of iron mining dates back to only 1939, in Ontario.


What were the important factors responsible for this tremendous surge in growth? These are important to know because we can, applying the same formula, look onto Quebec-Labrador iron ore area's future with considerable insight.

The depletion of high-grade direct-shipping ores of the Mesabi Range in Minnesota, caused by the mining of over 2 billion tons of ore since its discovery in 1896 and its rapid consumption during World War II caused United States steel and iron ore merchant companies to undertake an intensive search for iron ore in foreign countries including Canada.

Around 1950 this was considered fantastic new thinking since the United States imported only 8 million tons or 10 per cent of its iron ore needs, and world trade, most of which was between Sweden and Europe, totalled only 40 million tons. Compare that with world trade in iron ore last year of over 300 million tons of which the United States took nearly 45 million tons, about half of which came from Canada.

The existence of favourable inland water transportation facilities and the fact that the Labrador-Quebec deposits are close to Pittsburg and Great Lakes blast furnaces caused attention to be focused on Canadian deposits.

The pioneer development at Schefferville and Sept-Iles with its large financial outlays by the Iron Ore Company of Canada was a credit to the company's remarkable foresight and ingenuity.



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However, I think it is fair to say that a favourable tax climate and political stability were also significant factors in attracting the large capital investments which have been made over the last twenty years.

The Canadian Government contributed by other means to the viability of the Quebec-Labrador iron ore region. Operations started in 1954 by shipping iron ore to key markets at Lake Erie Ports, through the narrow canals of the old Seaway System, using small-capacity canalers and the trans-shipment port of Contrecoeur, near Montreal.

With completion of the new St. Lawrence Seaway, a joint effort by Canada and the United States, at a cost of \$325 million to the Canadian Government, trans-shipment was no longer necessary and larger ships could transit the Seaway with a considerable reduction in transport costs. This has been probably one of the principal factors that has kept Labrador-Quebec ores competitive in price with similar ores in the Great Lakes region.

In the late 1950's, major structural changes began to appear in the world iron ore market, which had by then become truly international.

Many of the natural iron ore deposits that had been developed were of higher grade than those of Schefferville and some mining costs were even lower. Furthermore, shipping rates that had risen steeply to 1958, now began to tumble and shipping distances which had formerly been a deterrent to penetration of these new ores into Canada's traditional markets of Europe and the United States, became unimportant.

As a result, within a short period of five years, the market for Schefferville direct-shipping ores had deteriorated rapidly.

This led to the second-generation development on the iron range - beneficiation and pelletizing facilities using low-grade ores by three companies including the Iron Ore Company of Canada. One may wonder why

this new development had not taken place earlier.

As I have mentioned the original impetus for the tremendous growth of the Canadian iron ore industry was largely the result of concern felt after World War II in the United States, and later to a lesser extent in Western Europe and Japan, about the adequacy of known existing reserves to meet rising iron ore requirements.

The United States steel industry and the large iron ore merchant firms were not only able to find and develop high-grade deposits, but extensive research on beneficiation of low-grade ores had proven that notwithstanding the very high capital costs of pellet plants, and the high production costs, pellets were superior cost-wise to natural ore for the making of steel.

It was indeed fortunate and timely that the direct-shipping operation was operating in the first place, for any new development would not have to bear as much infrastructure cost because some of the facilities could be shared.

Two companies experienced later expansions and, as the Canadian Government had foreseen, third-generation development in Labrador-Quebec is now with us.

It is an economic fact that without previous development of infrastructure the new operation at Mt. Wright by Quebec Cartier Mining Company and the utilization of low-grade iron ores from Schefferville in the new pellet plant at Sept-Îles by Iron Ore Company of Canada would not be viable today. The Canadian Government has supported in no small measure these new developments.

I am informed that with the completion of these new projects by 1976 over 2 billion dollars will have been invested in Quebec-Labrador and will have created 3,500 new jobs that will support an additional population of

about 20,000. A new town will have been created. Aside from the iron ore developments, construction of the \$165-million Rayonier pulp mill at Port Cartier, made possible by the already constructed Quebec Cartier Mining Company rail and harbour facilities, and considered a spinoff development of the iron ore industry, I am told will create 1,800 permanent jobs in the mill and woods operation by 1974.

The large grain elevator at Port Cartier has been also an important spinoff development of the iron ore industry.

The timetable for development of the Churchill Falls hydroelectric project was probably pushed ahead many years because of the existence of the Iron Ore Company of Canada railroad and further attests to our great appreciation of the iron ore industry's worth.

At this juncture, I would like to say how proud we are of Wabush Mines, which is owned in large part by Canadian steel companies which have also invested heavily in domestic iron ore resources.

Canada has cut its imports of iron ore to 15 percent of total consumption, down sharply from 72 percent in 1955, as Canada became a major producer.

In many other ways, the government is assisting your industry. We see that your new contracts require shipping ore twelve months of the year. The Canadian Department of Transport provide assistance in the form of ice reconnaissance and icebreaker support. Before I go into tax policies and future development I would like to tell you how pleased we are by the pleasant appearance and amenities of your communities. The amount and variety of recreational facilities available certainly reflects the social awareness of the iron companies that could be well adopted by others in the industry and in other sectors. I understand that the new

community of Fermont for Mt. Wright will be unique in that it will incorporate a concept not seen in most northern communities which have tended to be carbon copies of southern Canadian cities with large heating systems being the only concession to climatic differences.

The townhouses, detached and semi-detached houses, will be systems built and transported to the site, and to provide shelter from prevailing winds, the apartment complex will also serve as a wind-screen structure. Connected to the apartment by a climate-controlled walkway will be a shopping centre, restaurant, recreational facilities and a town hall. The compact street plan will minimize distances to service and shopping, and houses will be sited to receive maximum sun.

The federal government is fully aware of the important role which the mining industry plays in the provision of jobs and general development of the remote areas of this country.

TAX POLICIES

The federal government has demonstrated this awareness by continuing in the recently revised Income Tax Act to provide encouragement to the mining industry through tax incentives. For example, new mines will be able to recover fully their initial expenditures by way of accelerated depreciation allowances before they become liable for the payment of federal corporate income taxes. Those expenditures will also earn a depletion allowance which will serve to reduce corporate income taxes in future years.

Mining companies are encouraged to explore for new deposits through special tax provisions which not only allow immediate deduction of exploration and development expenditures, but also will permit the deduction from taxable income of depletion allowances earned through

such expenditures.

In the case of a new mine, expenditures by the mining company on social assets such as houses, schools, hospitals, water and sewage systems, sidewalks and streets are eligible for accelerated depreciation. By permitting the new mine operator to recover such expenditures before the operation becomes taxable, the federal government encourages the establishment of living accommodation and social amenities which improve the quality of life for the persons employed in remote areas.

It may not be as well known as it ought, that the federal rate of corporate income tax on mining companies will decrease substantially in future years. For one thing, the general corporate income tax rate under the new Act will decline one tax point per year until it is reduced to 46 per cent in 1976. For another, after the transitional period has ended in 1976, 15 points of tax will be abated to the provinces in addition to the present abatement of 10 points. Thus, the federal corporate income tax rate after 1976 on mining companies will fall to 21 per cent. The level at which a province will set its corporate income tax rate will be a matter for that province to decide.

Taken together, the provisions of the new Income Tax Act give recognition to the risk element involved in mining ventures, the international competition for capital, the incentives available in other countries and world market conditions while ensuring that profitable mineral ventures bear a fair share of taxation.

THE LATEST BUDGET MEASURES

One of the tax changes announced by the minister of finance in his budget speech May 8 will be of consequence to the iron ore mining

companies. From May 8, expenditures on machinery and equipment to process iron ores after extraction from the ground and up to the pig iron stage will earn depletion allowances. Thus expenditures on the expansion or replacement of milling and pelletizing equipment will be eligible to earn depletion even though a new mine or major expansion is not involved.

The more general tax concessions to "manufacturing and processing" which were announced in the budget speech will have some indirect effect on iron ore mining through encouraging the expansion of steel making facilities in Canada.

The additional tax benefits applicable to the mining industry may be expected to stimulate and strengthen the industry in general, and to promote the further processing of minerals in Canada which will benefit all Canadians. In particular we may hope to see an expansion of existing facilities, construction of entirely new mine complexes, and perhaps the development of other sophisticated processes to up-grade and render more competitive the iron ores of the Labrador region of Newfoundland and Quebec.

Adequate resources are certainly available for the projects that are currently underway such as at Carol Lake and Mt. Wright. However, we are particularly proud of the Iron Ore Company of Canada's new pellet plant at Sept-Îles because it will utilize resources that would otherwise be left in the ground as useless rock. The three new projects owe their viability to already present infrastructure facilities, which not only reduce the overall installation cost by half but lessen the capital cost burden for greenfield projects as well.

We thus see that government support through its tax policy and other policies over the years has created viable operations that with retained funds have grown into maturing enterprises.

So much for the past and the present; now let us look into the future.

OUTLOOK AND CONCLUSION

While iron ore production capacity in Quebec-Labrador could reach anywhere from 55 million tons to 60 million tons by 1975, 80 million tons of capacity by 1980 is certainly quite in the realm of possibility if plans for expansion and new greenfield projects are realized.

By 1976, the work force should have increased over the present complement by some 3,500. At the same time the population should have grown by about 18,000.

The existence of IOC's railroad most certainly has pushed the timetable for the construction of Churchill Falls hydroelectric project many years. In the meantime, construction of these projects has created a tremendous increase in construction jobs whose impact has had considerable bearing on the healthiness of certain sectors of our economy.

Notwithstanding the large iron ore resources that exist in many countries, iron ore mining will continue its characteristic trend towards concentration of production in large operations in countries whose environments, particularly those related to favourable and stable political and fiscal areas, are such that those countries readily lend themselves to investor confidence. Canada has large reserves of iron ore, has achieved and maintained the confidence of investors, has the trained professional, technical and skilled manpower for resource development, and has an advanced and growing industrial support base. Therefore, the Canadian iron ore industry may grow even more rapidly in the years ahead to 1980 than has been envisaged here. The future is indeed bright.

From what I have said you can see how important the iron ore industry is to Canada, and how much emphasis the Federal Government gives to fostering the growth of the industry. We are proud of the achievements of your community in both social and economic terms, and look for its continued success.

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